

SUMMARY ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author: Correa Analyst: Roger Lackey Bill Number: AB 10

Related Bills: See Prior Analysis Telephone: 845-3627 Amended Date: 06-15-99

Attorney: Patrick Kusiak Sponsor:

SUBJECT: Min Tax/ Corps exempt first and second taxable years

DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended _____.

☒ AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced/amended _____.

FURTHER AMENDMENTS NECESSARY.

DEPARTMENT POSITION CHANGED TO _____.

REMAINDER OF PREVIOUS ANALYSIS OF BILL AS AMENDED March 23, 1999, STILL APPLIES.

OTHER - See comments below.

SUMMARY OF BILL

This bill would exempt every corporation that incorporates or qualifies to do business in California on or after January 1, 2000, from the minimum franchise tax for the first taxable year (prepaid to the Secretary of State (SOS)) or the minimum franchise tax for the second taxable year.

SUMMARY OF AMENDMENT

The June 15, 1999, amendment revised and expanded the bill to provide that every corporation that incorporates or qualifies to do business on or after January 1, 2000, would not be subject to the minimum franchise tax (prepaid to the SOS) for its first taxable year or for its second taxable year.

As a result of the amendment, the Specific Findings, Implementation Considerations and Tax Revenue Estimate identified in the department's analysis of AB 10 as amended March 23, 1999, no longer apply. New Specific Findings (except for the state law discussion), Implementation Considerations, and Tax Revenue Estimate are provided below.

The department did not analyze the bill as amended June 2, 1999.

SPECIFIC FINDINGS

This bill would provide that every corporation that incorporates or qualifies to do business on or after January 1, 2000, is exempt from the minimum franchise tax (prepaid to the SOS) for its first taxable year or for its second taxable year.

Board Position:

<input type="checkbox"/> S	<input type="checkbox"/> NA	<input type="checkbox"/> NP
<input type="checkbox"/> SA	<input type="checkbox"/> O	<input type="checkbox"/> NAR
<input checked="" type="checkbox"/> N	<input type="checkbox"/> OUA	<input type="checkbox"/> PENDING

Department/Legislative Director Date

Johnnie Lou Rosas **6/23/1999**

This bill would not apply to any corporation that reorganizes solely for the purpose of avoiding payment of its minimum franchise tax.

This bill would not apply to limited partnerships, limited liability companies, limited liability partnerships, charitable organizations, regulated investment companies, real estate investment trusts, real estate mortgage investment conduits, financial asset securitization investment trusts, and qualified Subchapter S subsidiaries.

Implementation Considerations

Implementing this bill would not significantly impact the department's programs and operations.

Tax Revenue Estimate

Revenue losses under the Bank & Corporation Tax Law are as follows:

Effective for Income Years Beginning January 1, 2000 (in millions)			
Eliminate:	1999-0	2000-1	2001-2
SOS Prepayment	-\$17	-\$37	-\$38
Minimum Tax	-\$11	-\$21	-\$22
Total Revenue Loss	-\$28	-\$58	-\$60

This analysis does not consider the possible changes in employment, personal income, or gross state product that could result from this measure.

Tax Revenue Discussion

Revenue losses would depend on the number of corporations each year for which the Secretary of State prepayment and subsequent minimum tax are due under current law.

It is projected for 2000 that approximately 56,000 new incorporations would benefit from eliminating the prepayment to the Secretary of State, and of those approximately 31,000 would benefit from the elimination of the second year minimum tax. The remaining corporations (25,000) would either be subject to a measured tax (i.e. greater than the minimum tax) for the second year or dissolve in their initial year.

BOARD POSITION

Neutral.

At its March 23, 1999, meeting, the Franchise Tax Board voted 2-0 to take a neutral position on this bill as introduced December 7, 1998.